

The Minutes of the  
Meeting of the  
Lancaster County Retirement Board  
February 8, 2019

The meeting was called to order by Commissioner Joshua Parsons at 9:00 a.m. in Conference Room 703 at the Lancaster County Offices, 150 N. Queen Street.

Members Present: Commissioner Joshua Parsons, Commissioner Dennis Stuckey, Commissioner Craig Lehman, Treasurer Amber Martin, and Controller Brian Hurter.

Others Present: Lee Martin, Marquette Associates, and Kathy Kunkel.

Treasurer Martin moved to approve the November 9, 2018 Retirement Board minutes as circulated. Commissioner Stuckey seconded. The motion carried unanimously.

As a follow-up to last month's meeting discussion regarding one of the Fund's portfolio monitoring litigation firms, Chimicles Schwartz Kriner & Donaldson-Smith LLP, requesting Fulton Financial to add users to their account to monitor the stocks held by the investment managers in the Fund, Controller Hurter contacted Chimicles to explain that the Board will continue to use them as a monitoring firm but would not agree to add users from a third-party. As a result of that conversation, Chimicles requested to present the situation to the Board. Controller Hurter emailed the Board to see how they wanted to move forward, and they agreed to have a conference call with Chimicles to provide information on their monitoring services and to answer any questions that the Board had.

On the conference call, Kim Donaldson-Smith and Beena McDonald explained their monitoring services. They said that Chimicles maintains a proprietary database to pull transactions from the custodian, have read only access, and maintain 5 years of data. She explained that QED Financial (who was included on the original agreement) was acquired by Broadridge, which is the firm who currently assists Chimicles with their monitoring services. Broadridge reached out directly to Fulton Financial for third party access. Ms. Donaldson-Smith agreed that she could not find that the County was notified of the change from QED to Broadridge. Ms. Donaldson-Smith and Ms. McDonald answered the Board's questions on this situation. At the end of the conference call, the Board thanked Ms. Donaldson-Smith and Ms. McDonald for their time.

Following discussion, the consensus of the Board was to continue to use Chimicles as a monitoring firm with no third-party access.

Mr. Martin presented the Retirement Fund's investment performance report as of December 31, 2018. The total Fund was valued at \$269,789,088 with a fourth quarter loss of \$27,019,542 and a negative 9.1% return for the quarter and a one-year loss of

\$13,491,771 and a negative 5.0% return for the year. The return is net of investment manager fees including mutual funds. He noted that only real estate and U.S. fixed income investments had a positive contribution for the quarter and the year.

Mr. Martin reviewed Lancaster County's Retirement Fund performance during 2018. He noted that the defensive equity managers, Acadian and MFS, outperformed their benchmark. He also noted that the real estate funds outperformed their benchmark. Mr. Martin stated the underperformers were the aggressive equity managers and the fixed income managers. The following portfolio changes were made during 2018: termination of the Vanguard Mid Cap Value Index fund, termination of the Emerald Advisors Mid Cap Growth fund, termination of the Lord Abbett Value Opportunities fund, addition of the Vanguard Mid Cap Index fund, addition of the Aristotle Small/Mid Cap Growth fund, reduction of the allocation of the Vanguard S&P 500 ETF fund, addition of the Fidelity S&P 500 Index fund, and an additional \$3 million contribution to Morgan Stanley Prime Property fund.

Mr. Martin reviewed the economic and financial environment including information on equities, fixed income, and inflation-sensitive assets. Mr. Martin reviewed the five-year summary of cash flows, asset allocation history, and percentile ranking for Lancaster County. He also reviewed the cumulative returns of the individual fund managers as of December 31, 2018. In addition, he reviewed the preliminary returns for the month of January 2019.

In reviewing the goals for 2019, Mr. Martin gave the following items to the Board for consideration: further diversification; the funding policy - actuarial assumptions and methods to use; and the investment policy - long term vs. short term trade-offs.

Controller Hurter reviewed the projected operating cash balance for the Retirement Fund. He noted that the trends continue in 2019 with the total monthly payouts averaging approximately \$1.3 million. He stated that the operating cash balance was approximately \$2.3 million at the end of January 2019 which was about \$1 million higher than expected. The Fund ended up with more cash than anticipated, due to \$360,000 in dividends from the S&P 500 fund and \$725,000 savings in expenses compared to estimated expenses. Controller Hurter estimated the additional cash needs of the Fund as of March 31, 2019 to be approximately \$1 million. Beginning in April 2019 the County will begin making the 2019 Actuarially Determined Contribution (ADC) to the Fund which is preliminarily estimated at \$5 million. This should cover cash needs of the Fund through the summer. Controller Hurter noted that he will work with the Treasurer's Office to make sure the funds are available and funded.

Following discussion, Commissioner Parsons moved to approve Controller Hurter to transfer up to \$1 million from the EmStone fund to meet the March 2019 cash needs for the Fund. Commissioner Stuckey seconded. The motion carried unanimously.

Mr. Martin reviewed the proposed portfolio rebalancing chart. The proposed rebalancing transfers \$1 million from the EmStone fund to the cash operating account in March 2019. Controller Hurter stated that EmStone is being used as the liquidity manager for the Fund. In addition, he noted that the residual dividends from year-end 2018 in the Emerald Advisors Mid Cap Growth Fund, will be transferred to the cash account. Controller Hurter stated that he will work with Marquette Associates to make the transfer.

Controller Hurter provided an update on the online pension calculator to be provided by Korn Ferry. He said that he reviewed the pension calculator and was impressed with what it will provide to the employees. Controller Hurter requested several changes and Korn Ferry is working on making those updates. He noted that the Controller's Office Systems Administration staff is creating a form that will give employees the information needed to complete the online pension calculation. Once it is up and running, the form will be available in PeopleSoft self-service. He stated the process is moving along and hoped it would be available for employees in the near future.

As discussed at the November Board meeting, Controller Hurter stated that December 31, 2019 will be the end of the current 3-year contract (2015-2017) with two one-year extensions (2018-2019) that the County had for retirement fund consulting services with Marquette Associates. It was the consensus of the Board to continue moving forward with the plan to issue an RFP for retirement consulting services during 2019. Controller Hurter stated that he will put together a preliminary RFP and proposed timeline and will provide it to the Board at a future meeting for discussion.

Mr. Martin discussed some changes that may impact the calculation of the Actuarially Determined Contribution (ADC). He stated that the asset value was down in the 4<sup>th</sup> quarter of 2018 which may cause an increase to the ADC. This could be offset due to the market value of the Fund being higher than the actuarial value which represents gains. He noted that there is a move to change the mortality tables on a more regular basis which could cause an increase to the liability and cause the ADC to increase. He suggested that if these changes are made and there is a significant impact to the ADC, the Board may want Korn Ferry to review how they measure the liability on the member accounts. There may be a different way to calculate this, causing the liability to drop and offsetting the increases to the liability and ADC. Mr. Martin is still in discussion with Korn Ferry on their calculations. Controller Hurter stated he is working with his team to provide the year-end information to Korn Ferry in hopes of getting the final ADC information as soon as possible.

In reviewing Retirement Board goals for 2019, Mr. Martin predicted that we may enter a period of rising inflation. He suggested that the Board review the Fund's overall asset allocation and consider strategies that may increase or help to hedge in this type of environment. Mr. Martin discussed some options in the real asset classes that could be

beneficial in a rising inflation environment. These classes include timber, farmland, and infrastructure. Following discussion, Mr. Martin offered to present an asset allocation study and refresher on timber, farmland, and infrastructure at the April meeting. In addition, information will be provided on a timeline and the waiting period to enter into these types of investments.

Controller Hurter stated that Korn Ferry will be on the agenda for the May Retirement Board meeting to present a draft of the 2019 Actuarial Valuation Including Determination of the ADC.

Commissioner Lehman moved to adjourn the meeting at 10:35 a.m. Commissioner Stuckey seconded. The motion carried unanimously. The next meeting is scheduled for April 12, 2019 at 9:00 a.m. in Conference Room 703 at the Lancaster County Offices, 150 North Queen Street.

Respectfully submitted,

Brian K. Hurter  
Secretary